

Message Text

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INFO SECTREASURY

C O N F I D E N T I A L CAIRO 1033

TREASURY FOR PARSKY

E.O. 11652: GDS

TAGS: EAID EG

SUBJECT: EGYPTIAN ARREARAGES

1. IN ONE HOUR MEETING WITH PRIMIN HEGAZI TODAY, I ASKED ABOUT STATUS GOE DECISION ON ARREARAGES QUESTION. I RECALLED THAT, DURING A PREVIOUS MEETING, THE PRIMIN HAD INDICATED HE WOULD ASK MINFINANCE TO INCLUDE EGYPTIAN POUND ARREARAGE FIGURE IN THE BUDGET. I HAD SUBSEQUENTLY DISCUSSED THE SUBJECT WITH MINFINANCE NASHAAR, BUT HE WAS NEW TO HIS JOB AND DISCLAIMED ANY KNOWLEDGE (CAIRO'S 576).
 2. I ALSO AGAIN URGED PRIMIN TO TAKE NECESSARY ACTION WITH APPROPRIATE GOE MINISTRIES TO GET THEM TO PAY PROMPTLY GOE DOLLAR ARREARAGES AND CURRENT DOLLAR OBLIGATIONS FOR THE SAKE OF ITS OWN CREDITWORTHINESS AND TO AVOID INCURRING UNNECESSARY LATE INTEREST CHARGES.
 3. RE EGYPTIAN POUND ARREARAGES, HEGAZI STATED HE IS AGREEABLE IN PRINCIPLE. HE HAD GIVEN INSTRUCTIONS TO INCLUDE ABOUT 40 MILLION POUNDS IN FY 75 BUDGET FOR THIS PURPOSE. (HE WAS NOT SURE OF THE FIGURE, BUT HE THOUGH THIS WAS IT) FOR BUDGETARY REASONS, THIS AMOUNT IS TO BE TRANSFERRED TO US GRADUALLY IN THE COURSE OF THE CURRENT FISCAL YEAR, PERHAPS ON A QUARTERLY BASIS. HE WAS NOT ABLE TO INCLUDE THE FULL
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56 MILLION POUNDS IN THE BUDGET THIS YEAR. EVEN THOUGH FOR US THIS IS LARGELY A PAPER TRANSACTION, IT REPRESENTS AN EXPENDI-

TURE WHICH MUST BE INCLUDED IN BUDGET AND EXPLAINED TO PEOPLE'S ASSEMBLY. AFTER CAREFUL STUDY HE HAD CONCLUDED HE COULD NOT INCLUDE THIS YEAR MORE THAN 40 MILLION POUNDS WITHOUT SHOWING AN UNACCEPTABLE BUDGETARY DEFICIT. THIS WAS THE BEST HE COULD DO, BUT HE HOPED TRANSFER REMAINDER IN NEXT FISCAL YEAR.

4. RE DOLLAR ARREARAGES AND CURRENT DOLLAR OBLIGATIONS, HEGAZI ACKNOWLEDGED GOE IS HAVING A SERIOUS LIQUIDITY PROBLEM. FIRST PRIORITY IS BEING GIVEN TO WHEAT AND FERTILIZER PURCHASES USING LIMITED HARD CURRENCY EARNINGS. PROBLEM HAS BEEN AGGRAVATED THIS YEAR BECAUSE OF INABILITY TO SELL EGYPTIAN COTTON CROP. UP TO NOW, ONLY 50,000 BALES HAVE BEEN SOLD, A FRACTION OF LAST YEAR'S SALES. AS A RESULT GOE'S HARD CURRENCY EARNINGS ARE LOWER THAN ESTIMATED. HE IS NOT WILLING TO REDUCE THE PRICE OF COTTON AND IS GAMBLING ON THE MARKET IMPROVING LATER IN THE YEAR. HE HAS ALSO TURNED DOWN EASTERN BLOC REQUESTS TO SEND ADDITIONAL COTTON TO THOSE COUNTRIES IN PAYMENT OF BILATERAL PROTOCOL ARREARAGES. HEGAZI SAID HE HAS INSTRUCTED MINFINANCE TO KEEP EGYPTIAN DOLLAR ARREARAGES AND OBLIGATIONS UP TO DATE TO MAXIMUM EXTENT POSSIBLE TO PRESERVE GOE'S CREDITWORTHINESS, BUT CAUTIONED THERE WILL BE SOME LATE PAYMENTS.

5. IN CONNECTION WITH ABOVE, MINFINANCE UNDERSECRETARY FOUAD SARRAF TELEPHONED EMBOFF YESTERDAY STATING THAT "ALL THE ARREARAGE" WHICH I HAD MENTIONED TO MINFINANCE DURING MY JANUARY 11 VISIT HAD NOW BEEN PAID. HE CLAIMED THESE INCLUDED BOTH DOLLAR AND POUND ARREARAGES, BUT COULD GIVE NO SPECIFICS. HE ADDED THAT AN ACCOUNT IS BEING OPENED AT NATIONAL BANK OF EGYPT FOR DEPOSIT OF POUNDS. IN RESPONSE TO EMBOFF'S REQUEST, SARRAF AGREED TO SEND WRITTEN REPLY TO MY LETTER TO MINFINANCE OF NOV 21 RE ARREARAGES SETTING FORTH THE SPECIFICS OF WHAT EGYPTIANS HAVE NOW ARRANGED. WILL REPORT FURTHER ON RECEIPT OF PROMISED LETTER.

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